

# Budget Update

**CITY MANAGER'S REPORT**

**APRIL 13, 2020**

# Purpose

## ◀ Update on COVID-19 Financial Impacts

- Overall Economic Impacts
- FY 2020 General Fund Budget Outlook
- FY 2021 General Fund Budget Outlook
- FY 2021 Challenges

# Annual Strategy Meeting Priorities



# Impact of COVID-19

- ◁ **Rapidly evolving situation**
- ◁ **Impact is wide, touching every community in our city**
- ◁ **Constant communication and collaboration with partners**
- ◁ **Key to a balanced response is understanding our financial outlook**

# Financial Strength of the City



**AAA Bond  
Rating for 42  
years in a row**



**Large, diverse  
tax base**



**Strong and robust  
financial policies  
and practices**



**Disciplined  
financial  
management**



**General Fund  
Reserve =  
2 months  
operating costs**

# Economic Impacts of COVID-19



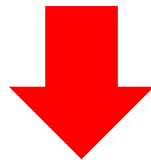
**Unemployment**



**16.8 million** unemployment claims filed in the last three weeks, estimated Unemployment Rate 15% nationally



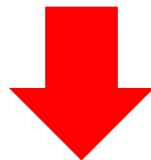
**GDP**



Estimated decline in GDP of **30%** for Q2 2020



**Consumer Confidence**



General market volatility and uncertainty



**Federal Stimulus**



Expanded unemployment benefits, small business relief, early tax credit

# COVID-19 City Tax Revenue Impacts

Type of Tax	General Fund	General Capital	Transit Fund	Hospitality Funds
Property Tax	Low	Low	NA	NA
Sales Tax	<b>High</b>	<b>High</b>	<b>High</b>	NA
Occupancy Tax	NA	NA	NA	<b>Very High</b>
Food and Beverage Tax	NA	NA	NA	<b>Very High</b>

*Above table does not reflect revenue impacts associated with fees and services.*

# FY 2020 General Fund Revenue Forecast Due to COVID-19

FY 2020 Mid-Year General Fund Projection Due to COVID-19		
Revenues by Source	FY 2020 Budget (millions)	FY 2020 Projection (millions)
Property Tax	\$390.2	\$391.7
Sales Tax	\$117.7	\$120.0
Utility Franchise Sales Tax	\$55.8	\$55.2
All Other	\$164.0	\$163.0
<b>Total Revenues</b>	<b>\$727.7</b>	<b>\$729.9</b>



# FY 2020 General Fund Revenue Forecast Due to COVID-19

FY 2020 Mid-Year General Fund Projection Due to COVID-19			
Revenues by Source	FY 2020 Budget (millions)	FY 2020 Projection (millions)	FY 2020 Projection (millions)
Property Tax	\$390.2	\$391.7	\$390.7
Sales Tax	\$117.7	\$120.0	\$111.1
Utility Franchise Sales Tax	\$55.8	\$55.2	\$53.3
All Other	\$164.0	\$163.0	\$158.9
<b>Total Revenues</b>	<b>\$727.7</b>	<b>\$729.9</b>	<b>\$714.0</b>
			<b>(\$13.7 Million)</b>

# FY 2020 General Fund Expenditure Reductions Unlikely to Offset Revenue Loss

## Possible Use of General Fund Balance in FY 2020



### Opportunities to minimize use of financial reserves in FY 2020

- \$2-4 Million expenditure surplus anticipated prior to COVID-10
- Citywide non-essential hiring freeze
- Continuous review of all spending
- Utilization of CARES Act where possible

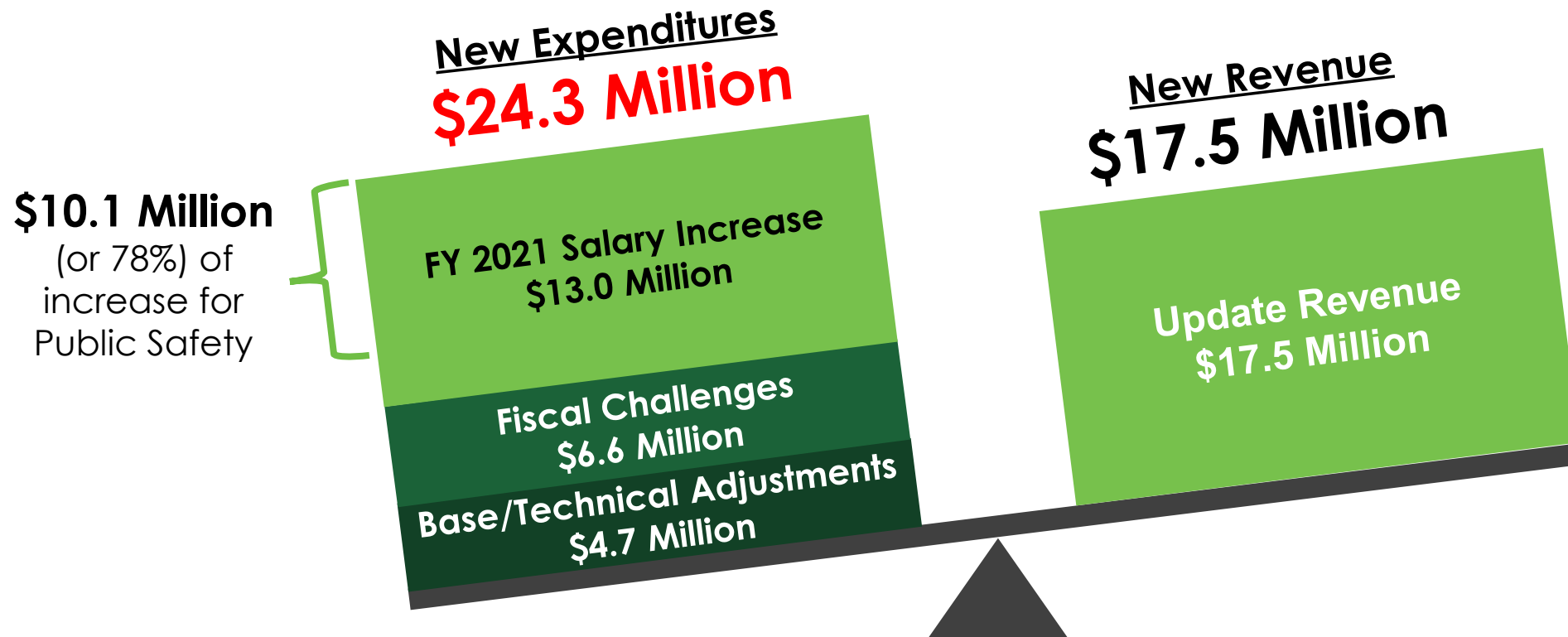
### Stresses causing use of financial reserves in FY 2020

- Possible revenue shortfall of \$13.7 million
- Special pay incentive
- COVID-19 related staffing and operating costs

# FY 2021 General Fund Outlook: Annual Strategy Meeting

**(\$6.8 Million)**

**Budget Challenge with FY 2021 Salary Increase**  
AS OF JANUARY 2020



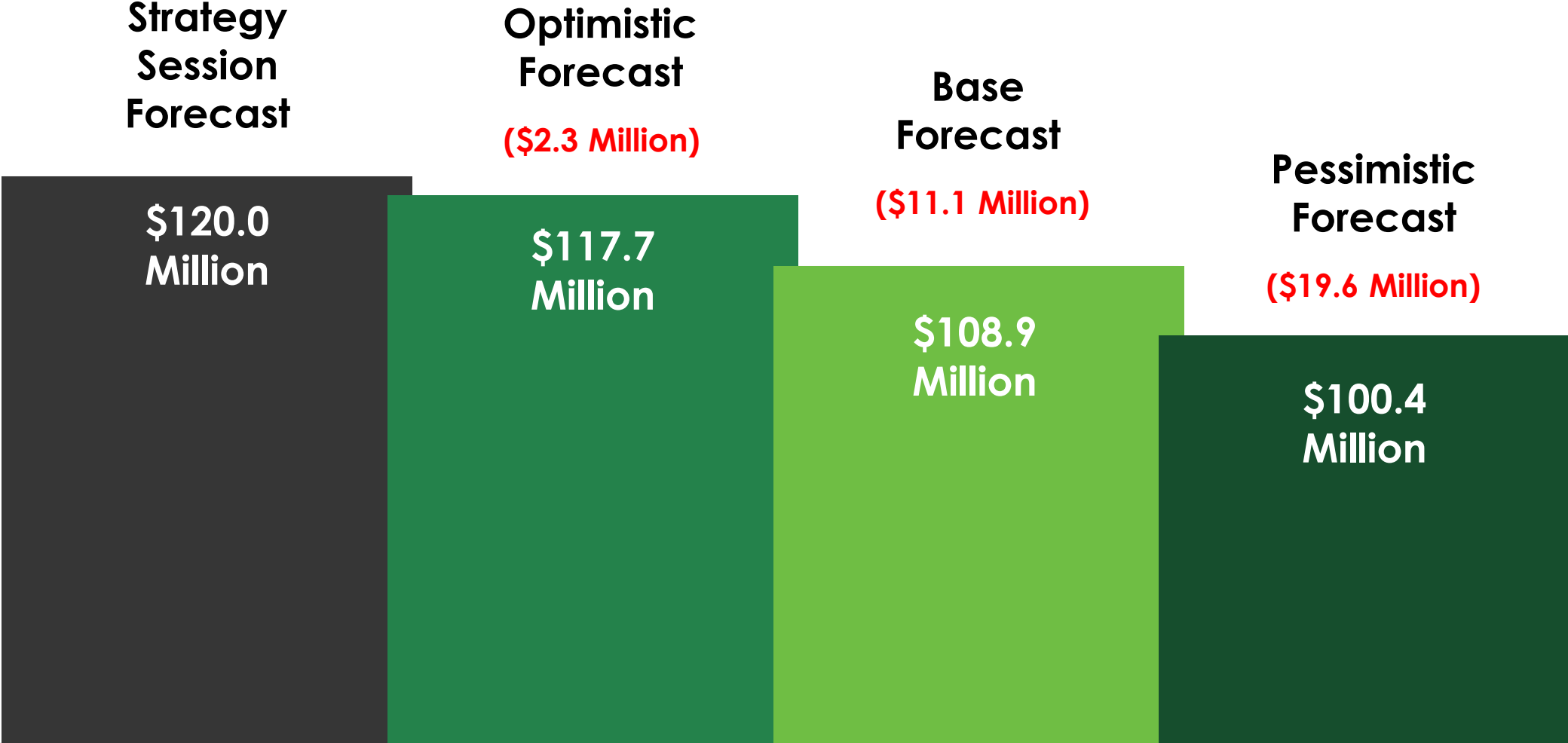
# FY 2021 General Fund Outlook: Last Budget Workshop (March 4)

General Fund Budget Challenge from Annual Strategy Meeting	<b>(\$6.8 Million)</b>
Improved Property Tax Projection from Assessor	<b>+\$2.5 Million</b>
Continued Strong Sales Tax Performance	<b>+\$1.5 Million</b>
Combined Positive Projection from Other Revenues	<b>+\$0.5 Million</b>

**General Fund Budget Challenge as of March 4** **(\$2.3 Million)**

As of March 4, the city's General Fund budget was on track to both be structurally balanced and maintain service levels in FY 2021.

# Range of FY 2021 Sales Tax Impacts



# FY 2021 General Fund Revenue Forecast Due To Covid-19

## FY 2021 General Fund Projection Due to Covid-19 Revisions

Revenues by Source	FY 2020 Budget (millions)	FY 2021 January Projection (millions)
Property Tax	\$390.2	\$399.0
Sales Tax	\$117.7	\$120.0
Utility Franchise Sales Tax	\$55.8	\$56.4
All Other	\$164.0	\$169.8
<b>Total Revenues</b>	<b>\$727.7</b>	<b>\$745.2</b>

**+\$17.5 Million**

# FY 2021 General Fund Revenue Forecast Due To Covid-19

FY 2021 General Fund Projection Due to Covid-19 Revisions			
Revenues by Source	FY 2020 Budget (millions)	FY 2021 January Projection (millions)	FY 2021 Projection (millions)
Property Tax	\$390.2	\$399.0	\$399.8
Sales Tax	\$117.7	\$120.0	\$108.9
Utility Franchise Sales Tax	\$55.8	\$56.4	\$55.8
All Other	\$164.0	\$169.8	\$164.7
<b>Total Revenues</b>	<b>\$727.7</b>	<b>\$745.2</b>	<b>\$729.2</b>
		<b>+\$17.5 Million</b>	<b>+\$1.5 Million</b>

# Mitigating FY 2020 and FY 2021 Impacts

## FY 2020 Actions

- Non-essential hiring freeze
- Consolidation of duties
- Utilization of federal relief wherever possible



## FY 2021 Budget Principles

- Protect existing employees
- No new programs
- Maintain structural balance
- Minimize impact to current services



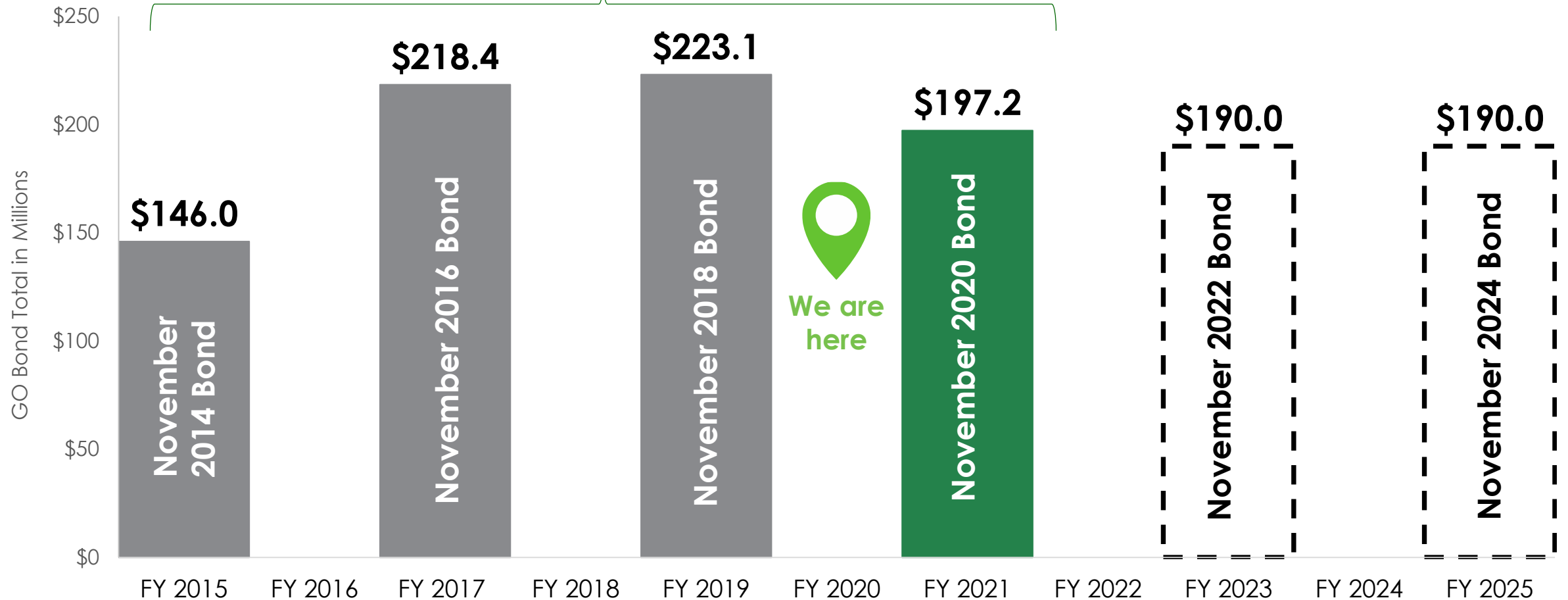
## FY 2021 Actions

- Elimination of vacant positions
- No enhancements or new programs
- Continuous review of expenditures



# Capital Investment Plan: Annual Strategy Meeting

“The Big Ideas”



# Key Revenue Impacted: *Hospitality Taxes*

- ◀ Recent rating agency national analysis projects hospitality based tax revenues to drop by 85% thru mid-summer, with a gradual return to normal by April 2021
  
- ◀ Impact of revenue losses will depend on:
  - Duration
  - Degree to which restrictions continue or heighten
  - Economic mix (i.e., tourism vs. business travel)
  - Consumer confidence
  - Willingness to travel

# Enterprise Fund Impact from COVID-19

Description				
Main Revenue Source	<b>Service Fees</b>	<b>Sales Tax</b>	Water Bill	Stormwater Bill
Revenue Impact	<b>Very High</b>	<b>High</b>	Low	Low
Operations Impact	<b>High</b>	<b>High</b>	Medium	Medium
Direct CARES Act Assistance	Yes	Yes	No	No
Recovery Period	<b>Slow</b>	<b>Slow</b>	Fast	Fast

# Moving Forward

- ◀ FY 2021 Budget will be presented on May 4
- ◀ Staff are working through this unprecedented situation
- ◀ Awaiting final guidance on CARES Act initiatives

# Questions?